

DEPARTMENT OF TRANSPORTATION**AUDITS AND INVESTIGATIONS**

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June 17, 2010

Mr. Roger Janes
Business Administrator
County of San Joaquin Department of Public Works
P.O. Box 1810
Stockton, CA 95201

Re: San Joaquin County, Department of Public Works
Audit of Indirect Cost Rate Proposal Fiscal Year 2008
File Number: P1590-0018 (P1190-0670)

Dear Mr. Janes:

We have audited the San Joaquin County, Department of Public Works (DPW) Indirect Cost Rate Proposal (ICRP) for the fiscal year (FY) ended June 30, 2008, to determine whether the ICRP is presented in accordance with 2 Code of Federal Regulations (CFR) Part 225 (formerly Office of Management and Budget Circular A-87) and the Department of Transportation's (Department's) Local Programs Procedures (LPP) 04-10. The DPW management is responsible for the fair presentation of the ICRP. The County proposed the following indirect cost rates:

INDIRECT RATES

Engineering Division	41.16%
Development Services Division	42.92%

Base: Direct division salaries and wages plus fringe benefits.

Our audit was conducted in accordance with the Standards for Performance Audits set forth in the *Government Auditing Standards* issued by the Comptroller General of the United States of America. The audit was less in scope than an audit performed for the purpose of expressing an opinion on the financial statements of the County. Therefore, we did not audit and are not expressing an opinion on the County's financial statements.

The standards require that we plan and perform the audit to obtain reasonable assurance about whether the data and records reviewed are free of material misstatement, as well as material noncompliance with fiscal provisions relative to the ICRP. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the data and records reviewed.

An audit also includes assessing the accounting principles used and significant estimates made by the DPW, as well as evaluating the overall presentation.

The accompanying ICRP was prepared on a basis of accounting principles prescribed in 2 CFR Part 225 and the Department's LPP 04-10, and is not intended to present the results of operations of the DPW in conformity with generally accepted accounting principles.

The scope of the audit was limited to select financial and compliance activities. The audit consisted of a recalculation of the ICRP, a review of the County's independent audit report for the fiscal year ended June 30, 2007, inquiries of DPW personnel, reliance placed on the single audit report for the fiscal year ended June 30, 2007 and prior audit field work performed by the Department in August 2005. We believe that our audit provides a reasonable basis for our conclusion.

Because of inherent limitations in any financial management system, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the financial management system to future periods are subject to the risk that the financial management system may become inadequate because of changes in conditions, or that the degree of compliance with the policies and procedures may deteriorate.

Our findings and recommendations, DPW's response and our analysis of the response are detailed below.

AUDIT RESULTS

Based on audit work performed, the DPW's ICRP for the FY ended June 30, 2008 is presented in accordance with 2 CFR Part 225 and LPP 04-10. The indirect cost rates are approved as proposed and the approval is based on actual costs, thus the carry forward provision does not apply.

Finding 1:

The DPW incorrectly computed the Countywide Cost Allocation Plan (Cowcap) costs for the Engineering and Development Services Divisions. The roll-forward computed from FY 2003-2004 was combined with FY 2005-2006 Cowcap costs and included in the FY 2007-2008 ICRP. The Cowcap already includes a carry forward to account for any adjustments between the fixed amounts previously approved and the actual costs. As a result, no other calculations are needed for determining the allowable Cowcap costs to be included within the ICRP.

In addition, the DPW allocated Cowcap costs to only four of ten divisions. This resulted in an overstatement of Cowcap costs allocated to the Engineering and Development Services Divisions.

2 CFR 225, Appendix A, Section C.1. a and b, states in part, costs are allowable when necessary and reasonable for proper and efficient performance and administration of Federal awards and allocable to Federal awards.

2 CFR 225, Appendix A, Section C.3. a and b, states in part, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assigned to such cost objective in accordance with relative benefits received. All activities which benefit from the governmental unit's indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

2 CFR 225, Appendix C, Section G. 3, states in part, allocated central service costs are usually negotiated and approved for a future fiscal year on a "fixed with carry forward" basis. When the actual costs of the year involved become known, the differences between the fixed amounts previously approved and the actual costs will be carried forward as an adjustment to the fixed amounts established for a later year.

Recommendation:

We recommend the DPW ensure future ICRPs include Cowcap costs calculated and applied in accordance with 2 CFR 225.

Auditee Response:

The DPW concurred with the finding and recommendation.

Analysis of Response:

The finding and recommendation remain.

Finding 2:

The DPW improperly utilized estimated percentages based on surveys to allocate actual administrative labor costs to various divisions including Engineering and Development Services Divisions. The estimated percentages were not supported by actual time records resulting in unsupported labor cost allocations. In addition, based on the misstatement of administrative labor costs, non-administrative labor costs relating to Workers Compensation and Casualty Insurance (also based on a percentage of the allocable administrative labor) were disproportionately allocated to the various divisions. Once the DPW recalculated based on actual time records, the result was a material adjustment of the ICRP rates.

2 CFR 225, Appendix A, Section C.1. a and b, states in part, costs are allowable when necessary and reasonable for proper and efficient performance and administration of Federal awards and allocable to Federal awards.

2 CFR 225, Appendix A, Section C.3. a and b, states in part, a cost is allocable to a particular cost objective if the goods or services involved are chargeable or assigned to such cost objective in accordance with relative benefits received. All activities which benefit from the governmental unit's

indirect cost, including unallowable activities and services donated to the governmental unit by third parties, will receive an appropriate allocation of indirect costs.

2 CFR 225, Appendix B, Section 8.h. 4 and 5, states in part, where employees work on multiple activities or cost objectives, a distribution of their salaries or wages will be supported by personnel activity reports or equivalent documentation which meets the standards in subsection 8.h. 5.

2 CFR 225, Appendix E, Section A.1, states in part, indirect costs as those incurred for common or joint purposes benefiting more than one cost objective and cannot be readily identified with a particular final costs objective without effort disproportionate to the results achieved.

Recommendation:

We recommend the DPW ensure future ICRPs include administrative costs, Workers Compensation, and Casualty Insurance costs that are supported and have been allocated in accordance with 2 CFR 225.

Auditee Response:

The DPW concurred with the finding and recommendation.

Analysis of Response:

The finding and recommendation remain.

This report is intended solely for the information of the DPW, Department Management, the California Transportation Commission and the Federal Highway Administration (FHWA). This report is a matter of public record and will be included on the "Reporting Transparency in Governments" website.

Please retain the approved ICRP for your files. Copies were sent to the Department's District 10, the Department's Division of Accounting and the FHWA. If you have any questions, please contact Carvin Seals Jr., Auditor, at (916) 323-7965 or Amada Maenpaa, Audit Manager, at (916) 323-7868.

Original signed by:

MARYANN CAMPBELL-SMITH
Chief, External - Local Governments

Attachment

Mr. Roger Janes

June 17, 2010

Page 5

- c: Brenda Bryant, Director, Financial Services, Federal Highway Administration
- Sue Kiser, Director of Planning and ROW, Federal Highway Administration
- James Ogbonna, Branch Chief, Rural Transit and Procurement, Division of Mass Transportation
- David Saia, LAPM/LAPG Coordinator, Division of Local Assistance
- Jenny N. Tran, Associate Accounting Analyst, Local Assistance Accounting Branch, Division of Accounting
- Sinaren Pheng, Local Assistance Engineer, Planning and Local Programs, District 10

**San Joaquin County Department of Public Works
Indirect Cost Plan**

The indirect cost rate contained herein is for use on grants, contracts and other agreements with the Federal Government and California Department of Transportation (Caltrans), subject to the conditions in Section II. This plan was prepared by the San Joaquin County Department of Public Works and approved by Caltrans.

SECTION I: Rates

<u>Rate Type</u>	<u>Effective Period</u>	<u>1st Tier Rate*</u>	<u>Indirect Rate**</u>
Final, Based upon Actual Costs			
Engineering Division	7/1/07 to 6/30/08	15.38%	41.16%
Development Services Division	7/1/07 to 6/30/08	14.96%	42.92%

*Base: Total Salaries and Wages plus fringe benefits

**Base: Total Direct Salaries and Wages plus fringe benefits

SECTION II: General Provisions

A. Limitations:

The rates in this Agreement are subject to any statutory or administrative limitations and apply to a given grant, contract, or other agreement only to the extent that funds are available. Acceptance of the rates is subject to the following conditions: (1) Only costs incurred by the organization were included in its indirect cost pool as finally accepted: such costs are legal obligations of the organization and are allowable under the governing cost principles; (2) The same costs that have been treated as indirect costs are not claimed as direct costs; (3) Similar types of costs have been accorded consistent accounting treatment; and (4) The information provided by the organization which was used to establish the rates is not later found to be materially incomplete or inaccurate by the Federal Government or Caltrans. In such situations the rate(s) would be subject to renegotiation at the discretion of the Federal Government or Caltrans; (5) Prior actual costs used in the calculation of the approved rate are contained in the grantee's Single Audit, which was prepared in accordance with OMB Circular A-133. If a Single Audit is not required to be performed, then audited financial statements should be used to support the prior actual costs; and, (6) These rates are based upon actual costs incurred during the period.

B. Accounting Changes:

This Agreement is based on the accounting system purported by the organization to be in effect during the Agreement period. Changes to the method of accounting for costs, which affect the amount of reimbursement resulting from the use of this Agreement, require prior approval of the authorized representative of the cognizant agency. Such changes include, but are not limited to, changes in the charging of a particular type of cost from indirect to direct. Failure to obtain approval may result in cost disallowances.

C. Fixed Rate with Carry Forward:

The final rate used in this Agreement is based on the actual costs for the period covered by the rate. Therefore, there is no carryforward

D. Audit Adjustments:

Immaterial adjustments resulting from the audit of information contained in this plan shall be compensated for in the subsequent indirect cost plan approved after the date of the audit adjustment. Material audit adjustments will require reimbursement from the grantee.

E. Use by Other Federal Agencies:

Authority to approve this agreement by Caltrans has been delegated by the Federal Highway Administration, California Division. The purpose of this approval is to permit subject local government to bill indirect costs to Title 23 funded projects administered by the Federal Department of Transportation (DOT). This approval does not apply to any grants, contracts, projects, or programs for which DOT is not the cognizant Federal agency.

The approval will also be used by the Department in State-only funded projects.

F. Other:

If any Federal contract, grant, or other agreement is reimbursing indirect costs by means other than the approved rates in this Agreement, the organization should (1) credit such costs to the affected programs, and (2) apply the approved rates to the appropriate base to identify the proper amount of indirect costs allocable to these programs.

G. Rate Calculation:

	<u>G & A First Tier Rate</u>	<u>Indirect Cost Rate</u>
<u>Engineering Division:</u>		
FY 2008 Actual Direct Salaries & Fringe Benefits	\$24,215,260	\$4,606,696
FY 2008 Actual Indirect Costs	\$ 3,468,694	\$ 917,720
Carry Forward from 2006	\$ 255,652	\$ 44,511
FY 2008 Division A-87 Costs		\$ 225,553
First Tier General Overhead Allocation (15.38% x \$4,606,696)		\$ 708,517
Total 2008 Indirect Costs	\$ 3,724,346	\$1,896,301
FY 2008 Rate(s)	15.38%	<u>41.16%</u>

	<u>G & A First Tier Rate</u>	<u>Indirect Cost Rate</u>
<u>Development Services Division:</u>		
FY 2008 Actual Direct Salaries & Fringe Benefits	\$24,215,260	\$1,380,680
FY 2008 Actual Indirect Costs	\$ 3,468,694	\$ 366,279
Carry Forward from 2006	\$ 153,669	\$ (50,733)
FY 2008 Division A-87 Costs		\$ 70,480
First Tier General Overhead Allocation (14.96% x \$1,380,680)		\$ 206,536
Total 2008 Indirect Costs	<u>\$ 3,622,363</u>	<u>\$ 592,562</u>
FY 2008 Rate(s)	14.96%	<u>42.92%</u>

CERTIFICATION OF INDIRECT COSTS

This is to certify that I have reviewed the indirect cost proposal submitted herewith and to the best of my knowledge and belief:

- (1) All costs included in this proposal to establish billing or final indirect costs rates for fiscal year 2008 (July 1, 2007 to June 30, 2008) are allowable in accordance with the requirements of the Federal and State award(s) to which they apply and 2 CFR Part 225, "Cost Principles for State, Local, and Indian Tribal Governments." Unallowable costs have been adjusted for in allocating costs as indicated in the cost allocation plan.
- (2) All costs included in this proposal are properly allocable to Federal and State awards on the basis of a beneficial or causal relationship between the expenses incurred and the agreements to which they are allocated in accordance with applicable requirements. Further, the same costs that have been treated as indirect costs have not been claimed as direct costs. Similar types of costs have been accounted for consistently and the Federal Government and Caltrans will be notified of any accounting changes that would affect the final rates.

I declare that the foregoing is true and correct.

Governmental Unit: **San Joaquin County Department of Public Works**

Signature: _____

Signature: _____

Reviewed, Approved and
Submitted by:

Prepared by:

Roger Janes
Business Administrator

Jeri Wong
Accounting Manager

Date: 12/28/09

Date: 12/28/09

INDIRECT COST RATE APPROVAL

The State DOT has reviewed this indirect cost plan and hereby approves the plan.

Signature: _____ Signature: _____

Reviewed, Approved and Submitted by: Prepared by:

Name: Mary Ann Campbell-Smith

Name: Carvin Seaks Jr.

Title: Chief, External Audits - Local Governments

Title: Auditor

Date: 6/17/10

Date: 6/17/10

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